

PERAC AUDIT REPORT



Lowell Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005 / PERAC: 05-49



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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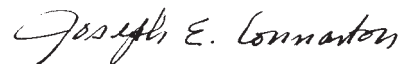
December 4, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Lowell Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Lowell Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

1. Annual Statement:

Based upon inspection of the Annual Statements filed by the Board it was determined that certain line item amounts contained in the 2005 Annual Statement did not match the detailed supporting schedules. The following discrepancies were noted:

- Realized/Unrealized Gains/Losses reported on the Investment Income Page did not agree with supporting schedules.
- PRIT Cash was reported on Schedule 5 instead of Schedule 1A.
- Investment Income for Equities did not agree with Schedule 4A and 4C.
- Cash account on Schedule 1A was recorded as 1100-Short Term Investments in the General Ledger and on the Annual Statement. It should have been recorded as 1040-Cash. This was also done in 2004.

Recommendation: As the sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement allowing readers to make an accurate assessment of the system's financial condition without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year.

2. Military Service Fund:

The Military Service Fund is not being handled in accordance with G.L. c. 32, § 22 (7). The Board is not properly appropriating and collecting contributions from the City of Lowell for members who have been called to active military duty. The City is paying members on active duty the difference between what they are receiving from the military and what they would have received if not on active duty. Contributions are being deducted from that amount. However, the Board is not collecting contributions from the city for the amount that the members would have contributed had they not been called to active military duty.

Recommendation: The Board must comply with the requirements of G.L. c. 32, § 22 (7) and collect contributions from the City equal to the amount that the members would have made had they not been called to active military duty. The proper procedure for handling the entire process is discussed in PERAC Memo #39/2001.

Board Response:

The Board has addressed all the issues in the report and in the future will make every effort to comply with the statutory requirements and PERA regulations pertaining to the Annual Statement and the Military Service account.

Final Determination:

PERAC audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Lowell Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2005	2004	2003
Cash	\$2,166,649	\$1,440,379	\$133,734
Short Term Investments	639,402	979,249	6,009,313
Fixed Income Securities	0	0	44,921,433
Equities	660,184	0	88,047,727
Pooled Short Term Funds	0	0	3,362,412
Pooled Domestic Equity Funds	0	0	0
Pooled International Equity Funds	0	0	9,112,759
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	0	0	5,652,670
Pooled International Fixed Income Funds	0	0	0
Pooled Global Fixed Income Funds	0	0	10,628,967
Pooled Alternative Investment Funds	4,121,193	5,243,122	6,736,652
Pooled Real Estate Funds	2,808,207	5,452,792	5,962,690
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	250,880	250,438	0
PRIT Core Fund	206,654,595	184,184,762	0
Interest Due and Accrued	2,638	788	831,395
Accounts Receivable	7,148,337	6,950,462	7,342,462
Accounts Payable	0	(4,248)	(642,142)
TOTAL	<u>\$224,452,085</u>	<u>\$204,497,743</u>	<u>\$188,100,074</u>
FUND BALANCES			
Annuity Savings Fund	\$65,696,865	\$61,472,676	\$57,792,508
Annuity Reserve Fund	21,622,829	22,001,896	22,132,340
Pension Fund	(2,378,725)	3,173,365	10,004,621
Military Service Fund	1,741	1,730	3,908
Expense Fund	0	0	0
Pension Reserve Fund	<u>139,509,376</u>	<u>117,848,075</u>	<u>98,166,697</u>
TOTAL	<u>\$224,452,085</u>	<u>\$204,497,743</u>	<u>\$188,100,074</u>

Lowell Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$59,279,973	\$16,510,488	\$15,727,115	\$3,869	\$0	\$69,444,017	\$160,965,462
Receipts	7,305,572	533,105	13,347,859	39	1,543,666	28,722,836	51,453,077
Interfund Transfers	(7,424,104)	7,423,637	623	0	0	(156)	0
Disbursements	(1,368,933)	(2,334,890)	(19,070,976)	0	(1,543,666)	0	(24,318,465)
Ending Balance (2003)	57,792,508	22,132,340	10,004,621	3,908	0	98,166,697	188,100,074
Receipts	6,974,100	658,404	13,967,098	10	1,619,627	19,681,305	42,900,544
Interfund Transfers	(2,052,245)	2,054,433	(73)	(2,188)	0	73	0
Disbursements	(1,241,688)	(2,843,280)	(20,798,280)	0	(1,619,627)	0	(26,502,875)
Ending Balance (2004)	61,472,676	22,001,896	3,173,365	1,730	0	117,848,075	204,497,743
Receipts	7,216,293	652,845	15,781,721	10	2,021,634	21,615,310	47,287,813
Interfund Transfers	(1,832,452)	1,787,037	(576)	0	0	45,991	0
Disbursements	(1,159,652)	(2,818,949)	(21,333,236)	0	(2,021,634)	0	(27,333,470)
Ending Balance (2005)	<u>\$65,696,865</u>	<u>\$21,622,829</u>	<u>(\$2,378,725)</u>	<u>\$1,741</u>	<u>\$0</u>	<u>\$139,509,376</u>	<u>\$224,452,085</u>

Lowell Retirement System

STATEMENT OF INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Annuity Savings Fund:			
Members Deductions	\$6,524,951	\$6,032,993	\$6,247,383
Transfers from other Systems	112,034	338,317	162,677
Member Make Up Payments and Redeposits	221,378	261,892	341,546
Investment Income Credited to Member Accounts	<u>357,929</u>	<u>340,898</u>	<u>553,967</u>
Sub Total	<u>7,216,293</u>	<u>6,974,100</u>	<u>7,305,572</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>652,845</u>	<u>658,404</u>	<u>533,105</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	370,614	465,112	301,021
Received from Commonwealth for COLA and Survivor Benefits	1,786,565	537,405	435,638
Pension Fund Appropriation	<u>13,624,542</u>	<u>12,964,581</u>	<u>12,611,200</u>
Sub Total	<u>15,781,721</u>	<u>13,967,098</u>	<u>13,347,859</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>10</u>	<u>10</u>	<u>39</u>
Sub Total	<u>10</u>	<u>10</u>	<u>39</u>
Expense Fund:			
Expense Fund Appropriation	283,500	283,500	301,418
Investment Income Credited to Expense Fund	<u>1,738,134</u>	<u>1,336,127</u>	<u>1,242,248</u>
Sub Total	<u>2,021,634</u>	<u>1,619,627</u>	<u>1,543,666</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	388,472	61,796	241,084
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	18,362	7,003	11,797
Excess Investment Income	<u>21,208,476</u>	<u>19,612,505</u>	<u>28,469,955</u>
Sub Total	<u>21,615,310</u>	<u>19,681,305</u>	<u>28,722,836</u>
TOTAL RECEIPTS	<u>\$47,287,813</u>	<u>\$42,900,544</u>	<u>\$51,453,077</u>

Lowell Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Refunds to Members	\$779,006	\$599,967	\$758,676
Transfers to other Systems	<u>380,646</u>	<u>641,721</u>	<u>610,257</u>
Sub Total	<u>1,159,652</u>	<u>1,241,688</u>	<u>1,368,933</u>
Annuity Reserve Fund:			
Annuities Paid	2,723,912	2,637,261	2,325,468
Option B Refunds	<u>95,037</u>	<u>206,019</u>	<u>9,422</u>
Sub Total	<u>2,818,949</u>	<u>2,843,280</u>	<u>2,334,890</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	12,656,982	12,508,875	10,913,828
Survivorship Payments	1,400,753	1,312,659	1,274,498
Ordinary Disability Payments	309,702	292,045	306,139
Accidental Disability Payments	4,893,085	4,763,362	4,659,335
Accidental Death Payments	1,359,909	1,312,831	1,258,123
Section 101 Benefits	308,217	291,422	292,693
3 (8) (c) Reimbursements to Other Systems	404,587	317,088	366,361
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>21,333,236</u>	<u>20,798,280</u>	<u>19,070,976</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	14,333	13,875	16,250
Salaries	134,042	121,413	135,759
Legal Expenses	95,311	87,303	119,410
Medical Expenses	0	38	0
Travel Expenses	2,417	1,109	4,622
Administrative Expenses	77,194	73,580	56,451
Furniture and Equipment	0	2,328	0
Management Fees	1,620,300	1,256,519	1,115,538
Custodial Fees	18,038	18,461	35,635
Consultant Fees	<u>60,000</u>	<u>45,000</u>	<u>60,000</u>
Sub Total	<u>2,021,634</u>	<u>1,619,627</u>	<u>1,543,666</u>
TOTAL DISBURSEMENTS	<u>\$27,333,470</u>	<u>\$26,502,875</u>	<u>\$24,318,465</u>

Lowell Retirement System

INVESTMENT INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Investment Income Received From:			
Cash	\$18,786	\$23,117	\$533
Short Term Investments	18,672	21,372	123,866
Fixed Income	0	522,086	2,801,618
Equities	7,937	244,359	1,151,977
Pooled or Mutual Funds	6,446,173	5,717,090	1,609,695
Commission Recapture	0	43,737	19,374
TOTAL INVESTMENT INCOME	<u>6,491,567</u>	<u>6,571,760</u>	<u>5,707,064</u>
Plus:			
Realized Gains	12,278,031	9,832,006	6,525,098
Unrealized Gains	20,854,861	15,682,248	24,742,641
Interest Due and Accrued - Current Year	2,638	788	831,395
Sub Total	<u>33,135,530</u>	<u>25,515,042</u>	<u>32,099,134</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	(15,696)	(166,196)
Realized Loss	(259,045)	(737,333)	(4,428,865)
Unrealized Loss	(15,409,869)	(8,554,433)	(1,551,984)
Interest Due and Accrued - Prior Year	(788)	(831,395)	(859,839)
Sub Total	<u>(15,669,702)</u>	<u>(10,138,858)</u>	<u>(7,006,884)</u>
NET INVESTMENT INCOME	<u>23,957,395</u>	<u>21,947,944</u>	<u>30,799,314</u>
Income Required:			
Annuity Savings Fund	357,929	340,898	553,967
Annuity Reserve Fund	652,845	658,404	533,105
Military Service Fund	10	10	39
Expense Fund	1,738,134	1,336,127	1,242,248
TOTAL INCOME REQUIRED	<u>2,748,918</u>	<u>2,335,439</u>	<u>2,329,359</u>
Net Investment Income	<u>23,957,395</u>	<u>21,947,944</u>	<u>30,799,314</u>
Less: Total Income Required	<u>2,748,918</u>	<u>2,335,439</u>	<u>2,329,359</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$21,208,476</u>	<u>\$19,612,505</u>	<u>\$28,469,955</u>

Lowell Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE PERIOD ENDING DECEMBER 31, 2005

	<u>MARKET VALUE</u>	<u>PERCENTAGE OF TOTAL ASSETS</u>
Cash	\$2,166,649	1.00%
Short Term	639,402	0.29%
Fixed Income	0	0.00%
Equities	660,184	0.30%
Pooled Short Term Funds	0	0.00%
Pooled Domestic Equity Funds	0	0.00%
Pooled International Equity Funds	0	0.00%
Pooled Global Equity Funds	0	0.00%
Pooled Domestic Fixed Income Funds	0	0.00%
Pooled International Fixed Income Funds	0	0.00%
Pooled Global Fixed Income Funds	0	0.00%
Pooled Alternative Investment Funds	4,121,193	1.90%
Pooled Real Estate Funds	2,808,207	1.29%
Pooled Domestic Balanced Funds	0	0.00%
Pooled International Balanced Funds	0	0.00%
PRIT Cash Fund	250,880	0.12%
PRIT Core Fund	<u>206,654,595</u>	<u>95.10%</u>
GRAND TOTALS	<u>\$217,301,110</u>	<u>100.00%</u>

For the year ending December 31, 2005, the rate of return for the investments of the Lowell Retirement System was 12.02%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Lowell Retirement System averaged 3.75%. For the 21-year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Lowell Retirement System was 10.65%.

Lowell Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

The Lowell Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

August 6, 1989

(1) Real estate investments shall not exceed 2.8% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and limited partnerships, provided that:

(a) Trust participants or limited partners do not participate in the selection of trustees or general partners and should a limited partner be required to participate in the selection of a General partner, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and

(b) Such trustees or general partners retain authority in the decision making process, and

(c) Should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

September 21, 1989

20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 100% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations; provided further that sales of fixed income investments in the portfolio managed by Consistent Asset Management may not exceed 400% of the market value of all fixed income obligations in this portion of the portfolio in any twelve month period.

February 8, 1990

(1) Real estate investments shall not total more than 10% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that:

(a) Trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and

(b) Such trustees or general partners retain authority in the decision making process, and

(c) Should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

December 19, 1990

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, excluding Public Service Company of NH 9.125% due 10/15/06, Bank of New England 8.75% due 4/1/99, Inland Steel Company 9.5% due 9/1/00, and Mississippi Power and Light 7.75% due 5/1/02.

Lowell Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

- 20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, excluding Public Service Company of NH 9.125% due 10/15/06, Bank of New England 8.75% due 4/1/99, Inland Steel Company 9.5% due 9/1/00, and Mississippi Power and Light 7.75% due 5/1/02 which may be held at the discretion of the board's qualified investment manager.

May 2, 1991

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to five percent of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that in the limited partnership investments:
- (a) the board as a limited partner does not participate in the selection of the general partner(s) or otherwise exercise discretion in the affairs of the partnership and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and
 - (b) such general partner(s) retains authority in the decision making process, and
 - (c) Should an investment in a limited partnership result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

- 20.09(3) All venture capital investments shall be made in companies, which have their principal places of business in the United States.

August 6, 1991

- 16.02(4) The board may charge custodian bank expenses against earned income from investments in an amount not to exceed .08% of the market value of the assets of the system on an annual basis.

January 14, 1992

- 20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:
- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
 - (b) such personnel retain authority in the decision making process; and
 - (c) Should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent?

Lowell Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

February 19, 1992

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
- (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
 - (b) such personnel retain authority in the decision making process; and
 - (c) Should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- 20.09(3) All venture capital investments shall be made in companies, which have their principal places of business in the United States.

August 5, 1993

- 20.03(1) (a) Domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase.
(b) International equities shall not exceed 5% of the total book value of the portfolio at the time of purchase.
- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

July 28, 1994

- 20.03(1) (a) Domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase.
(b) International equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.
- 20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including international fixed income investments which shall be limited to 5% of the total fixed income portfolio.

Lowell Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

December 15, 1994

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
- (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
 - (b) such personnel retain authority in the decision making process, and
 - (c) Should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent?
- 20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.
- 20.09(3) All venture capital investment shall be made in companies, which have their principal places of business in the United States.
- 20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short-term obligations for calendar years 1994 and 1995.
- 20.07(6) Purchases and sales of equity investments shall not exceed 300% of the average market value of all equity holdings in any twelve-month period for calendar years 1994 and 1995.
- 20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period commencing calendar year 1996.

August 10, 1995

- 20.03(1) (a) Domestic equities shall not exceed 55% of the total book value of the portfolio at the time of purchase.
- (b) International equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.

Lowell Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

January 25, 1996

- 20.07(1) The issuer of equity securities must have a publicly available operating record of at least five years, including past performance resulting from mergers, acquisitions, and spin-offs. Equity securities, however, may be purchased at the time of an Initial Public Offering (IPO) provided that the total value of investments with a publicly available operating record of less than five years shall not exceed 5% of the total equity market value.
- 20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

June 20, 1996

(3) Futures Contracts other than as follows:

- (a) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERAC for international investments.
- (b) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio to a maximum of fifty percent (50%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

August 15, 1996

- 20.07(9) Commingled real estate shall not exceed 20% of the total book value of the portfolio at the time of purchase provided that:
- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) Should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time of divestiture is prudent.

March 13, 1997

- 20.03(2) At least 6% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

Lowell Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

May 7, 1997

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with Assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
- (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
 - (b) such personnel retain authority in the decision making process, and
 - (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- 20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in The United States.
- 20.09(3) All venture capital investment shall be made in companies which have their Principal places of business in the United States.

August 19, 1997

- 20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:
- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
 - (b) such personnel retain authority in the decision making process, and
 - (c) Should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time of divestiture is prudent.

Lowell Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

June 24, 1998

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
- (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
 - (b) such personnel retain authority in the decision making process, and
 - (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- 20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in The United States.
- 20.09(3) All venture capital investment shall be made in companies which have their principal places of business in the United States.

October 30, 1998

- 19.01(7) (a)(6) the range of fees that are considered tolerable, provided, however, that in no event shall a Board retain a qualified investment manager whose fee is based on a percentage of committed capital, provided, however, that such a fee may be paid for one year after the partnership commences operations, and provided further, that such a fee is paid by all investors;
- (6a) the board, however, may retain Charles River Partnership IX and pay compensation according to the fee schedule submitted to PERAC provided that such a fee is paid by all investors.

October 6, 1999

- 16.08 In accordance with PERAC Investment Guideline 99-3, the Lowell Retirement Board may invest in Ascent Venture Partners III, L.P. The system is an investor in Ascent Venture Partners II, L.P. and has submitted the required documentation to justify investing in Ascent Venture Partners.

Lowell Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

February 10, 2000

- 16.08 In accordance with PERAC Investment Guideline 99-3, the Lowell Retirement System may invest in Boston Millennia Partners II, L.P. The system has previously invested in Boston Millennia Partners I and has indicated that performance to date has been very favorable. All required supporting documents have been submitted.

December 19, 2000

- 16.08 In accordance with PERAC Investment Guideline 99-3, the Lowell Retirement Board may invest in Charles River Partnership XI. The System has had a very satisfactory relationship with Charles River Ventures in its five immediately preceding partnerships.

June 28, 2001

- 16.08 In accordance with PERAC Investment Guideline 99-2, the Lowell Retirement System may modify its investment mandate with Cutler & Company, its large cap value equity manager. The System wants to achieve exposure to mid cap as well as large cap value equity but does not intend to seek a separate account for this sub class. It will modify its existing mandate to allow Cutler & Company to opportunistically add mid cap value equities to its portfolio in a proportion that will usually not exceed 25%. The System has had a satisfactory relationship with Cutler & Company for almost five years and they and their consultant are comfortable with the firm's capabilities in mid caps.

September 3, 2002

- 16.08 The Lowell Retirement Board is authorized to withdraw the funds currently held in its large cap value mandate with Cutler & Company and temporarily place the proceeds in State Street Global Advisors' Russell 1000 Value Index pending the selection of a permanent replacement manager. This temporary authorization extends through December 31, 2002.

Lowell Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Lowell Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.

Lowell Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Lowell Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Lowell Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 27, 1984

Creditable Service:

Temporary employees who work not less than seven months in a calendar year given a full year's credit, otherwise credited only with actual time worked.

Public Records:

As of April 27, 1977, medical records and financial statements pertaining to members and retirees of the Retirement System are not public records.

Lowell Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONTINUED)

Creditable Service:

Full year creditable service for each school year employed for regularly employed full time school cafeteria employees (35 hours per week) subject to review at time of retirement.

If a cafeteria employee transfers to another position, the time employed as a cafeteria worker shall be credited on a 42-week formula for each school year employed. The creditable service for permanent part-time cafeteria employees shall be computed on the actual time worked.

Membership:

Special education aides who are regularly employed in the school department must become members of the retirement system. Applications for membership for each special education aide are to be forwarded to the school department.

Creditable Service:

Full year creditable service for each school year employed for regularly employed full time special education aides (35 hours per week) subject to review at time of retirement. If a special education aide transfers to another position, the time employed as a special education aide shall be credited on a 42-week formula for each school year employed.

Vouchers:

The signature of at least one member of the Board and the Executive Secretary or the signature of at least two members of the Board without the Executive Secretary shall constitute the approval of the Board on such vouchers as may be required by the Treasurer Custodian for proper payments by him.

August 31, 1987

Creditable Service:

To grant a full year of creditable service for each school year employed for permanent full-time School Library Aides (35 hours per week) subject to review at time of retirement.

To grant six (6) months creditable service to provisional or permanent employees who work twenty (20) hours per week for one full year.

April 24, 1989

Election Rules In the event of a recount in the election of the member-representative of the Board, the Board must receive a written request for a recount, within five (5) working days after the date of notification to the candidates.

May 21, 1991

Regular Compensation

Clothing or uniform allowances included in regular compensation under certain conditions.

Lowell Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Walter Fernandez

Appointed Member: James T. Kennedy Term Expires: Indefinite

Elected Member: Joseph P. Mahoney Term Expires: 12/13/08

Elected Member: James A. Quealy Term Expires: 08/02/07

Appointed Member: Vacant Term Expires:

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	Fiduciary Insurance \$50,000,000
Elected Member:)	Fidelity Bond \$1,000,000
Appointed Member:)	MACRS Policy
Staff Employee:)	

Lowell Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2005. The report was issued in draft version only and was not finalized.

The actuarial liability for active members was	\$151,338,941
The actuarial liability for retired members was	<u>197,439,623</u>
The total actuarial liability was	348,778,564
System assets as of that date were	<u>209,877,811</u>
The unfunded actuarial liability was	<u>\$138,900,753</u>
 The ratio of system's assets to total actuarial liability was	 60.2%
As of that date the total covered employee payroll was	\$68,778,711

The normal cost for employees on that date was 8.10% of payroll

The normal cost for the employer was 4.11% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum

Rate of Salary Increase: Varies

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2005	\$209,877,811	\$348,778,564	\$138,900,753	60.2%	\$68,778,711	201.95%
1/1/2004	212,820,983	333,362,336	120,541,353	63.8%	70,987,841	169.81%
1/1/2003	193,158,554	316,822,473	123,663,919	61.0%	75,040,045	164.80%

The 1/1/2005 data presented in the above table is based on a draft version of the actuarial report.

Lowell Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Superannuation	96	35	20	49	11	43	39	108	27	30
Ordinary Disability	0	0	1	2	0	0	1	0	2	2
Accidental Disability	4	5	8	14	3	7	5	7	7	3
Total Retirements	100	40	29	65	14	50	45	115	36	35
 Total Retirees, Beneficiaries and Survivors	 1,057	 1,099	 1,075	 1,119	 1,055	 1,087	 1,117	 1,198	 1,201	 1,187
 Total Active Members	 1,614	 1,992	 2,011	 2,086	 2,057	 1,946	 2,070	 1,882	 1,828	 1,850
 Pension Payments										
Superannuation	\$8,042,326	\$8,181,541	\$8,092,754	\$8,233,670	\$8,576,651	\$8,999,106	\$9,558,502	\$10,913,828	\$12,508,875	\$12,656,982
Survivor/Beneficiary Payments	992,454	1,125,942	1,092,825	1,107,143	1,229,233	1,258,431	1,303,560	1,274,498	1,312,659	1,400,753
Ordinary Disability	305,549	268,224	286,941	280,430	291,733	302,302	312,850	306,139	292,045	309,702
Accidental Disability	3,618,278	3,691,381	3,833,159	3,925,590	4,105,347	4,548,124	4,591,751	4,659,335	4,763,362	4,893,085
Other	<u>1,873,109</u>	<u>1,811,348</u>	<u>1,791,608</u>	<u>1,740,767</u>	<u>1,763,686</u>	<u>1,748,390</u>	<u>1,857,396</u>	<u>1,917,176</u>	<u>1,970,614</u>	<u>2,072,713</u>
Total Payments for Year	<u>\$14,831,716</u>	<u>\$15,078,436</u>	<u>\$15,097,287</u>	<u>\$15,287,600</u>	<u>\$15,966,650</u>	<u>\$16,856,353</u>	<u>\$17,624,059</u>	<u>\$19,070,976</u>	<u>\$20,847,553</u>	<u>\$21,333,236</u>

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